

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: June 23, 2011
POSITION: Oppose
SPONSOR: California State University

BILL NUMBER: AB 633
AUTHOR: K. Olsen
RELATED BILLS: AB 2031 (2010),
AB 262 (2007),
SB 1757 (2004)

BILL SUMMARY: California State University: Motor Vehicle Acquisition

This bill would permanently exclude the California State University (CSU) from the requirement to utilize the Department of General Services (DGS) for the acquisition of motor vehicles by removing the CSU from the definition of a "state agency" as it pertains to provisions regarding fleet purchase requirements.

FISCAL SUMMARY

The CSU estimates this bill would generate cost avoidance of approximately \$532 per vehicle purchased as a result of less staff time spent on purchasing and avoiding DGS administration fees. The CSU claims it takes an average of 12 days to purchase a vehicle independently, compared to an average of 63 days when they were last required to use DGS to purchase a vehicle in 2006-07. Additionally, the CSU is estimating cost avoidance of approximately \$240,000 annually (\$80 per vehicle) by avoiding an annual per vehicle fee charged by the DGS, which covers DGS' cost to perform safety inspections, repair work, preventative maintenance, and fleet data collection, analysis, and reporting.

While the CSU contends that the exemption from being required to use DGS for vehicle procurement will result in savings, it appears CSU's calculations exclude some costs and make some flawed assumptions. First, the savings identified by the CSU should partially offset by the increased purchase price of vehicles. The DGS establishes annual statewide vehicle contracts, leveraging the state's buying power. Purchasing a vehicle through the DGS contracts simply requires the buyer to identify the vehicle on contract and generate a purchase order. Purchasing vehicles independently outside of the DGS contracts requires the buyer to conduct a competitive bid for each purchase; the cost of this process does not appear to be included in the CSU analysis. When comparing the purchase price paid by CSU for various vehicles in 2009 to the state contract price, the CSU would have saved approximately \$85,500 if the equivalent vehicles had been purchased under the DGS contract rather than independently. Also, the administrative fee savings estimated by CSU is overstated as it appears the calculation used an outdated rate of 2 percent rather than the current rate of 1.29 percent and the calculations were based on the cost of purchases made by the CSU rather than the reduced purchase price negotiated under the contracts. Lastly, while the CSU would avoid the \$80 annual per vehicle fee charged by DGS, the CSU savings calculations do not account for the costs incurred by CSU to provide these services for the vehicles it purchases independently.

COMMENTS

The Department of Finance is opposed to this bill because this measure would reduce DGS oversight and control over the state's fleet at a time when the state is making significant efforts to reduce fleet expenses statewide. In addition, any potential for cost savings may be eroded by a higher cost for each vehicle purchase and could result in increased costs overall.

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Analyst/Principal (0242) J. Sturges	Date	Program Budget Manager Lisa Ann L. Mangat	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
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AUTHOR

AMENDMENT DATE

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AB 633

COMMENTS (continued)

This bill would permanently remove the CSU from the definition of a “state agency” as it relates to the provisions specifying purchase requirements for vehicles. By removing the CSU from this definition, the CSU would be exempt from the requirement to obtain DGS approval prior to purchasing or replacing motor vehicles. While the CSU contends procuring vehicles independently will be less costly, the calculations to support this claim include errors and exclude costs incurred by CSU. Therefore, it is unclear whether this measure would provide fiscal relief to CSU or result in greater costs overall because the CSU may not always obtain the best price for vehicles purchased. It should be noted that the CSU currently may use the DGS master agreements for vehicle purchases to benefit from a lower state rate; however, it is not clear based on DGS’s analysis of this data if that is happening consistently within each CSU campus.

Chapter 1097, Statutes of 1994 (AB 1191, Aguiar) provided CSU the authority to conduct procurements and contracts independently, including the purchase of motor vehicles, without going through the DGS. CSU's exemption was repealed by Chapter 926, Statutes of 2004 (SB 1757, Denham) in order to provide the DGS with more oversight and control of the state's fleet. Chapter 679, Statutes of 2007 (AB 262, Coto), once again exempted the CSU but included a sunset date of July 1, 2012.

As amended, this bill would require the CSU, to the greatest extent feasible, to purchase vehicles using statewide commodity contracts and to continue to report to the Legislature on its motor vehicle purchases. This reporting would be required each year up to and including June 30, 2017.

		SO	(Fiscal Impact by Fiscal Year)						
Code/Department	LA	(Dollars in Thousands)							
Agency or Revenue	CO	PROP							Fund
Type	RV	98	FC	2011-2012	FC	2012-2013	FC	2013-2014	Code
1760/Dept Gen Svc	SO	No	-----	See Fiscal Summary				-----	0666
6610/CSU	SO	No	-----	See Fiscal Summary				-----	0001
<u>Fund Code</u>	<u>Title</u>								
0001	General Fund								
0666	Service Revolving Fund								